

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE TARIFF FILING OF JOHNSON COUNTY)	
GAS COMPANY, INC. TO REVISE THE)	CASE NO. 91-004
GAS COST ADJUSTMENT CLAUSE)	

O R D E R

On December 13, 1990, Johnson County Gas Company, Inc. ("Johnson County") filed with the Commission a tariff to revise its gas cost adjustment clause. On January 8, 1991, the Commission issued its Order suspending the tariff in order to determine the reasonableness of the proposed revision. On January 22, 1991, Commission Staff held an informal conference with representatives of Johnson County. At that time, Johnson County was given an example of a generic quarterly gas cost adjustment identical in most respects to several gas cost adjustment tariffs approved by and on file with this Commission. On February 4, 1991, Johnson County revised its original filing, and stated in its cover letter that it would "withhold filing any change in rate until this clause is approved" and that if the tariff revision were "timely approved," Johnson County could file for the second quarter of 1991 and "catch up with the current changes in rate."

After reviewing the record in this case and being otherwise sufficiently advised, the Commission finds that:

1. Johnson County chose to only superficially modify its original filing of December 13, 1990, rather than use the example it was given. Johnson County was certainly under no obligation to copy or adopt the tariffs of other utilities. In its current form, however, Johnson County's proposed tariff revision is not in the best interest of its customers and could, in fact, result in financial hardship for the utility itself. The Commission agrees that a periodic gas cost adjustment tariff should be approved for Johnson County without delay since Johnson County can ill afford the notice period losses incurred under its current purchased gas adjustment clause.

In order to implement a periodic adjustment clause in a timely fashion to the benefit of Johnson County and its customers, the following changes in Johnson County's proposed tariff should be made:

a. Proposed Determination of CGR section

(1) Johnson County has designated its quarterly filing as a gas cost recovery filing, which is consistent with its original proposed revision and other approved periodic tariffs. However, whereas its original proposal used the customary acronym of "GCR" throughout that filing (although "CGR" appeared in the first heading, apparently as a typographical error) the revision of February 4, 1991 used the acronym "CGR" throughout (although "GRC" is used at one point, again apparently as a typographical error). In order to avoid confusion on the part of readers as well as users of this tariff, the acronym "GCR" should be used in

every instance in which reference to the quarterly report or resulting composite rate is made.

(2) A second sentence under the approved heading should be added as set out in Appendix A to this Order to state the fact that the GCR shall become effective for billing for service rendered on and after the first day of each calendar quarter. There is nothing in Johnson County's proposed revision which definitively states the intended effective date for the billing of approved rates.

(3) The designation "projected gas cost" is used in subsection one, with the acronym "PGA" inserted parenthetically. The Billing and Definitions sections use the acronym "PGC." In order to avoid confusion on the part of users of this tariff, as well as other readers who might be comparing this tariff to other approved periodic adjustment tariffs, the designation "expected gas cost" with the acronym "EGC" should be used in every instance in which reference is made to projected gas cost.

(4) In subsection two, Johnson County states that the Actual Adjustment ("AA") will compensate for differences between the expected and actual gas cost during the preceding three calendar quarters. It is not clear how Johnson County intends to implement this adjustment. Because 30 days notice must be given prior to the effective date of the GCRs, all gas cost information for the immediately preceding quarter would not be available at the time of filing. Each application will, in fact, have to be filed during the immediately preceding quarter in order to be effective on the first day of the GCR calendar quarter. For

this very reason, all quarterly GCA filings currently approved and in use specify that the AA shall equal the sum of the AA for the reporting period (with "reporting period" defined in the Definitions section as the 3-month accounting period that ended approximately 60 days prior to the filing date of the updated GCRs) and for the three preceding calendar quarters. The use of an AA such as Johnson County has proposed could result in an under- or over-recovery that would be nearly impossible to reconcile. Johnson County's proposed language concerning the calendar quarters used for the AA should, therefore, be revised as set out in Appendix A to reflect the aforementioned reporting period plus the three quarters preceding it.

(5) Johnson County's proposed subsection three should be modified in order to ensure that the Balance Adjustment ("BA") is not used inappropriately as a "catch-all" for any sort of gas cost, charge, or refund which may be received at any time. The BA should be used only to compensate for any remaining under- or over-collections from AA's which have run their full 12-month course, from previous BA's, and from refund adjustments. The BA subsection should be renumbered as subsection four as set out in Appendix A.

(6) A new subsection three should be included to set out the provisions for a separate refund adjustment ("RA"), including directions for the computation of interest. The RA language used should be that set out in Appendix A. This language is the same as that approved for other gas utilities with periodic

GCA tariffs and, therefore, in the interest of consistency and equity.

b. Proposed Billing section

This section should be modified as set out in Appendix A to clarify how the GCR rate is used in developing rates to be applied to customers' bills. The GCR rate should be applied to the latest base rates and set out on each applicable rate sheet.

c. Proposed Definitions section

(1) Definition one, which originally defined "average projected cost" and which now defines "average expected cost," should be rejected in its entirety owing to certain unclear references such as "the cost of all costs" and adjustments "for charges expected in volumes which did not exist for the entire period." As to the latter, the Commission assumes that this is a typographical error and that Johnson County intended to duplicate a provision for adjusting for "changes" rather than "charges" in volumes, which has been routinely approved in other utilities' GCRs. Rather than risking the possibility of approving charges related to the purchase of non-existent volumes, language similar to that approved for other gas utilities should be substituted as the definition of "average expected cost." This definition should include the actual calculation methodology for the EGC, as well as the provision for adjusting for changes in volumes. In order to ensure that recovery of line loss is restricted to the maximum of 5 percent permitted by the Commission, a provision for recalculating purchase volumes in the event of excessive line loss

should also be included. The definition of "average expected cost" as set forth in Appendix A to this Order should replace that which originally was proposed.

(2) Definition three, which defines the calendar quarters, should be modified to exclude the sentence pertaining to quarterly filing times. Johnson County is at liberty to file its application with the Commission with excess of 30 days notice whenever it chooses. However, to include in its tariff the requirement that rates to be effective for the quarter beginning October 1 will be based on supplier rates in effect in July, the time that gas rates are traditionally at their lowest, would be fiscally irresponsible and its approval by this Commission could constitute confiscatory ratemaking. A stipulation of filing times is, in any event, unnecessary.

(3) Due to the modification of subsection two dealing with the AA in the Determination of GCR section, a definition of "reporting period" should be added. This definition, as set out in Appendix A, ensures that reconciliation of actual to expected gas cost would occur only when actual numbers are available.

2. In preparing and filing future applications pursuant to its GCA as modified herein, Johnson County should use the forms contained in Appendix B.

3. In reference to Johnson County's statements concerning withholding filings, the Commission notes that Johnson County's AA, which in a periodic clause works to "catch up" past changes in rates, will only be available to Johnson County to recover over-

and under-collections incurred on and after the date this tariff is approved for use. Any previous increases in gas cost for which Johnson County has neglected to file as of the date of the tariff will not be allowed for recovery; any decreases in gas cost for which Johnson County has neglected to file as of that date could subject Johnson County to a suspension of its clause. Johnson County must continue to make use of its current PGA clause until the effective date of this tariff revision, pursuant to KRS 278.160.

4. Johnson County's revised GCA clause, as modified herein and set out in Appendix A of this Order, is fair, just, and reasonable, in the public interest, and should be effective on and after the date of this Order.

IT IS THEREFORE ORDERED that:

1. Johnson County's proposed GCA be and it hereby is denied.


2. The GCA in Appendix A, attached hereto and incorporated herein, is fair, just, and reasonable, and is hereby approved effective on and after the date of this Order.

3. For all future GCA applications filed pursuant to the tariff approved herein, Johnson County shall use the forms prescribed in Appendix B, attached hereto and incorporated herein.


4. Within 30 days of the date of this Order, Johnson County shall file its revised tariff in conformity with Appendix A.

Done at Frankfort, Kentucky, this 24th day of April, 1991.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 91-004 DATED 4/24/91

GAS COST ADJUSTMENT CLAUSE

Determination of GCR

The Company shall file a gas cost recovery rate (GCR) with the Commission at least 30 days prior to the first day of each calendar quarter. The GCR shall become effective for billing for service rendered on and after the first day of each calendar quarter.

The gas cost recovery rate is comprised of:

1. The expected gas cost (EGC) on a dollar-per-Mcf basis, which represents the average expected cost of purchased gas based on 12 months of actual usage.
2. The actual adjustment (AA), on a dollar-per-Mcf basis, which compensates for differences between previous quarters' expected gas cost and the actual cost of gas. The AA shall equal the sum of the AA for the reporting period and for the three preceding calendar quarters.
3. The supplier refund adjustment (RA) on a dollar-per-Mcf basis, which reflects the refunds received from suppliers during the reporting period plus interest at a rate equal to one-half of one percent below the average 90-day commercial paper rate for the twelve-month period. In the event of any large or unusual refunds, the Company may apply to the Public Service Commission for the right to depart from the refund procedure herein set forth.
4. The balance adjustment (BA) on a dollar-per-Mcf basis, which compensates for any remaining under- or over-collections which have occurred as a result of prior actual, refund, and balance adjustments.

Billing

The gas cost recovery rate to be applied to bills of customers shall equal the sum of the following components:

$$\text{GCR} = \text{EGC} + \text{AA} + \text{RA} + \text{BA}$$

The GCR will be added to or subtracted from the latest base tariff rates prescribed by Commission Order or otherwise legally effective, and will be included in the tariff rates stated on each applicable rate sheet within this tariff.

GAS COST ADJUSTMENT CLAUSE
(Continued)

Definitions

For purposes of this tariff:

1. "Average Expected Cost" is the cost of purchased gas which results from the application of supplier rates currently in effect, or reasonably expected to be in effect during the calendar quarter, on purchased volumes for the most recently available twelve-month period, divided by the corresponding sales volume. In the event that line loss exceeds 5 percent, purchased volumes for the twelve-month period shall be calculated as: sales volumes \div .95. Where the calculations require the use of volumes used during a given period, and those volumes did not exist for a particular source for the entire period, or the Company expects the volumes to change substantially, the Company may make appropriate adjustments to its calculations. Any adjustment of this type shall be described in the quarterly Gas Cost Recovery Report.
2. The "GCR" is the total of the expected gas cost and all adjustments.
3. The "Calendar Quarters" are: January, February, and March; April, May, and June; July, August, and September; and October, November, and December.
4. "Reporting Period" means the three-month accounting period that ended approximately 60 days prior to the filing date of the updated gas cost recovery rates, i.e., the calendar quarters ended March 31, June 30, September 30, and December 31 of each year.

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 91-004 DATED 4/24/91

JOHNSON COUNTY GAS COMPANY, INC.

QUARTERLY REPORT OF GAS COST
RECOVERY RATE CALCULATION

Date Filed:

Date Rates to be Effective:

Reporting Period is Calendar Quarter Ended:

SCHEDULE I
GAS COST RECOVERY RATE SUMMARY

<u>Component</u>	<u>Unit</u>	<u>Amount</u>
Expected Gas Cost (EGC)	\$/Mcf	
+ Refund Adjustment (RA)	\$/Mcf	
+ Actual Adjustment (AA)	\$/Mcf	
+ Balance Adjustment (BA)	\$/Mcf	
= Gas Cost Recovery Rate (GCR)	\$/Mcf	

GCR to be effective for service rendered from _____ to _____.

A.	<u>EXPECTED GAS COST CALCULATION</u>	<u>Unit</u>	<u>Amount</u>
	Total Expected Gas Cost (Schedule II)	\$	
	+ Sales for the 12 months ended _____	Mcf	
	= Expected Gas Cost (EGC)	\$/Mcf	

B.	<u>REFUND ADJUSTMENT CALCULATION</u>	<u>Unit</u>	<u>Amount</u>
	Supplier Refund Adjustment for Reporting Period (Sch. III)	\$/Mcf	
	+ Previous Quarter Supplier Refund Adjustment	\$/Mcf	
	+ Second Previous Quarter Supplier Refund Adjustment	\$/Mcf	
	+ Third Previous Quarter Supplier Refund Adjustment	\$/Mcf	
	= Refund Adjustment (RA)	\$/Mcf	

C.	<u>ACTUAL ADJUSTMENT CALCULATION</u>	<u>Unit</u>	<u>Amount</u>
	Actual Adjustment for the Reporting Period (Schedule IV)	\$/Mcf	
	+ Previous Quarter Reported Actual Adjustment	\$/Mcf	
	+ Second Previous Quarter Reported Actual Adjustment	\$/Mcf	
	+ Third Previous Quarter Reported Actual Adjustment	\$/Mcf	
	= Actual Adjustment (AA)	\$/Mcf	

D.	<u>BALANCE ADJUSTMENT CALCULATION</u>	<u>Unit</u>	<u>Amount</u>
	Balance Adjustment for the Reporting Period (Schedule V)	\$/Mcf	
	+ Previous Quarter Reported Balance Adjustment	\$/Mcf	
	+ Second Previous Quarter Reported Balance Adjustment	\$/Mcf	
	+ Third Previous Quarter Reported Balance Adjustment	\$/Mcf	
	= Balance Adjustment (BA)	\$/Mcf	

SCHEDULE II
EXPECTED GAS COST

Actual* Mcf Purchases for 12 months ended _____

(1) <u>Supplier</u>	(2) <u>Dth</u>	(3) Btu <u>Conversion Factor</u>	(4) <u>Mcf</u>	(5)** <u>Rate</u>	(6) (4)x(5) <u>Cost</u>
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Totals

Line loss for 12 months ended _____ is _____% based on purchases of _____ Mcf and sales of _____ Mcf.

	<u>Unit</u>	<u>Amount</u>
Total Expected Cost of Purchases (6)	\$	
+ Mcf Purchases (4)	Mcf	
= Average Expected Cost Per Mcf Purchased	\$/Mcf	
x Allowable Mcf purchases (must not exceed Mcf sales + .95)	Mcf	
= Total Expected Gas Cost (to Schedule IA.)	\$	

*Or adjusted pursuant to Gas Cost Adjustment Clause and explained herein.

**Supplier's tariff sheets or notices are attached.

SCHEDULE III

SUPPLIER REFUND ADJUSTMENT

Details for the 3 months ended (reporting period)

<u>Particulars</u>	<u>Unit</u>	<u>Amount</u>
Total supplier refunds received	\$	
+ <u>Interest</u>	\$	<u> </u>
= Refund Adjustment including interest	\$	
+ <u>Sales for 12 months ended</u> <u> </u>	Mcf	<u> </u>
= Supplier Refund Adjustment for the Reporting Period (to Schedule IB.)	\$/Mcf	

SCHEDULE IV
ACTUAL ADJUSTMENT

For the 3 month period ended _____ (reporting period)

<u>Particulars</u>	<u>Unit</u>	<u>Month 1</u> <u>()</u>	<u>Month 2</u> <u>()</u>	<u>Month 3</u> <u>()</u>
Total Supply Volumes Purchased	Mcf			
Total Cost of Volumes Purchased	\$			
+ Total Sales (may not be less than 95% of supply volumes)	Mcf			
= Unit Cost of Gas	\$/Mcf			
- EGC in effect for month	\$/Mcf			
= Difference [(Over-)/Under-Recovery]	\$/Mcf			
x Actual sales during month	Mcf			
= Monthly cost difference	\$			

	<u>Unit</u>	<u>Amount</u>
Total cost difference (Month 1 + Month 2 + Month 3)	\$	
+ Sales for 12 months ended _____	Mcf	
= Actual Adjustment for the Reporting Period (to Schedule IC.)	\$/Mcf	

SCHEDULE V
BALANCE ADJUSTMENT

For the 3 month period ended _____ (reporting period)

<u>Particulars</u>	<u>Unit</u>	<u>Amount</u>
(1) Total Cost Difference used to compute AA of the GCR effective four quarters prior to the effective date of the currently effective GCR.	\$	
Less: Dollar amount resulting from the AA of _____ \$/Mcf as used to compute the GCR in effect four quarters prior to the effective date of the currently effective GCR times the sales of _____ Mcf during the 12-month period the AA was in effect.	\$	
Equals: Balance Adjustment for the AA.	\$	
(2) Total Supplier Refund Adjustment including interest used to compute RA of the GCR effective four quarters prior to the effective date of the currently effective GCR.	\$	
Less: Dollar amount resulting from the RA of _____ \$/Mcf as used to compute the GCR in effect four quarters prior to the effective date of the currently effective GCR times the sales of _____ Mcf during the 12-month period the RA was in effect.	\$	
Equals: Balance Adjustment for the RA.	\$	
(3) Total Balance Adjustment used to compute BA of the GCR effective four quarters prior to the effective date of the currently effective GCR.	\$	
Less: Dollar amount resulting from the BA of _____ \$/Mcf as used to compute the GCR in effect four quarters prior to the effective date of the currently effective GCR times the sales of _____ Mcf during the 12-month period the BA was in effect.	\$	
Equals: Balance Adjustment for the BA.	\$	
Total Balance Adjustment Amount (1) + (2) + (3)	\$	
+ Sales for 12 months ended _____	Mcf	
= Balance Adjustment for the Reporting Period (to Schedule ID.)	\$/Mcf	